

Due to reclass of income statement line 19 federal taxes incurred and line 26 change in net deferred income tax



ANNUAL STATEMENT
For the Year Ended December 31, 2017
OF THE CONDITION AND AFFAIRS OF THE
NARRAGANSETT BAY INSURANCE COMPANY

NAIC Group Code 04861, 0497 NAIC Company Code 43001 Employer's ID Number 05-0394576
Organized under the Laws of Rhode Island, State of Domicile or Port of Entry Rhode Island
Country of Domicile United States
Incorporated/Organized 06/10/1981 Commenced Business 04/01/1982
Statutory Home Office 25 Maple Street, Pawtucket, RI, US 02860-2104
Main Administrative Office 25 Maple Street, Pawtucket, RI, US 02860-2104 401-725-5600
Mail Address P. O. Box 820, Pawtucket, RI, US 02862-0820
Primary Location of Books and Records 25 Maple Street, Pawtucket, RI, US 02860-2104 401-725-5600
Internet Web Site Address www.nbic.com
Statutory Statement Contact Laura Leigh Jones 401-495-6014
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OFFICERS

Table with 4 columns: Name, Title, Name, Title. Rows include Todd Christopher Hart (Chief Executive Officer), Kirk Howard Lusk (Chief Financial Officer), Timothy Michael Moura # (President), Kirk Howard Lusk # (Secretary).

OTHER OFFICERS

Empty line for other officers.

DIRECTORS OR TRUSTEES

Table with 4 columns: Name #, Name #, Name #, Name #. Rows include Bruce Thomas Lucas #, Trifon Houvardas #, Richard Alexander Widdicombe #, Vijay Shankarrao Walvekar #, Shannon Elizabeth Lucas #, James Alfred Masiello #, Irini Barlas #.

State of RHODE ISLAND

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County of PROVIDENCE

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Timothy Michael Moura
President

Kirk Howard Lusk
Secretary

Kirk Howard Lusk
Treasurer

Subscribed and sworn to before me
this day of

- a. Is this an original filing? Yes [] No [X]
b. If no:
1. State the amendment number 1
2. Date filed 05/16/2017
3. Number of pages attached 3

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	47,101,131	65,902,834
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	14,041,591	24,273,969
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	8,366,838	10,274,663
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	4,349,255	4,637,183
5. Aggregate write-ins for underwriting deductions	0	0
6. Total underwriting deductions (Lines 2 through 5)	26,757,684	39,185,815
7. Net income of protected cells		0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	20,343,448	26,717,019
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	2,612,126	2,198,200
10. Net realized capital gains (losses) less capital gains tax of \$	25,405	13,344
11. Net investment gain (loss) (Lines 9 + 10)	2,637,531	2,211,544
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$	(728,631)	(656,313)
13. Finance and service charges not included in premiums	1,575,957	1,633,753
14. Aggregate write-ins for miscellaneous income	4,714,753	3,823,988
15. Total other income (Lines 12 through 14)	5,562,079	4,801,428
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	28,543,058	33,729,991
17. Dividends to policyholders		0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	28,543,058	33,729,991
19. Federal and foreign income taxes incurred	2,622,249	1,445,193
20. Net income (Line 18 minus Line 19) (to Line 22)	25,920,809	32,284,798
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	89,363,619	59,258,741
22. Net income (from Line 20)	25,920,809	32,284,798
23. Net transfers (to) from Protected Cell accounts		0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$	1,008,441	1,658,938
25. Change in net unrealized foreign exchange capital gain (loss)		0
26. Change in net deferred income tax	(5,627,230)	(10,597,213)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	(389,900)	6,589,355
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	4,000	169,000
29. Change in surplus notes		0
30. Surplus (contributed to) withdrawn from protected cells		0
31. Cumulative effect of changes in accounting principles		0
32. Capital changes:		
32.1 Paid in		0
32.2 Transferred from surplus (Stock Dividend)		0
32.3 Transferred to surplus		0
33. Surplus adjustments:		
33.1 Paid in		0
33.2 Transferred to capital (Stock Dividend)		0
33.3 Transferred from capital		0
34. Net remittances from or (to) Home Office		0
35. Dividends to stockholders		0
36. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)	0	0
37. Aggregate write-ins for gains and losses in surplus	825,181	0
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	21,741,300	30,104,878
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 37)	111,104,919	89,363,619
DETAILS OF WRITE-INS		
0501.		0
0502.		0
0503.		0
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0
1401. FEE INCOME	4,493,988	3,823,988
1402. OTHER INCOME	220,765	0
1403.		0
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	4,714,753	3,823,988
3701. PRIOR YEAR TAX ADJUSTMENT	825,181	0
3702.		0
3703.		0
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	825,181	0

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance.....	32,762,689	73,490,017
2. Net investment income	3,120,389	2,482,078
3. Miscellaneous income	5,562,079	4,801,428
4. Total (Lines 1 through 3)	41,445,158	80,773,523
5. Benefit and loss related payments	4,974,127	36,503,585
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	15,331,575	14,111,085
8. Dividends paid to policyholders	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses).....	3,563,950	174,708
10. Total (Lines 5 through 9)	23,869,652	50,789,378
11. Net cash from operations (Line 4 minus Line 10)	17,575,506	29,984,145
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	19,534,669	12,424,972
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(19)	0
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	19,534,650	12,424,972
13. Cost of investments acquired (long-term only):		
13.1 Bonds	17,936,007	45,009,797
13.2 Stocks	0	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	17,936,007	45,009,797
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	1,598,643	(32,584,825)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied).....	(20,557,758)	(4,376,580)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(20,557,758)	(4,376,580)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(1,383,609)	(6,977,260)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	48,263,293	55,240,553
19.2 End of year (Line 18 plus Line 19.1)	46,879,684	48,263,293

1. Summary of Significant Accounting Practices

A. Accounting Practices

The accompanying financial statements of Narragansett Bay Insurance Company (the “Company” or “NBIC”) are presented on the basis of accounting practices prescribed or permitted by the Rhode Island Insurance Department.

The Rhode Island Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of Rhode Island for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the Rhode Island Insurance Law. The National Association of Insurance Commissioners' (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by the State of Rhode Island.

A reconciliation of the Company’s surplus between the practice permitted by the Rhode Island Department and the NAIC SAP is shown below:

	SSAP #	F/S Page	F/S Line #	2017	2016
<u>NET INCOME (LOSS)</u>					
(1) Narragansett Bay Insurance Company state basis (Page 4, Line 20, Columns 1 & 2)				\$ 25,920,809	\$ 32,284,798
(2) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:				-	-
(3) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:				\$ -	\$ -
(4) NAIC SAP (1-2-3=4)				<u>\$ 25,920,809</u>	<u>\$ 32,284,798</u>
<u>SURPLUS</u>					
(5) Narragansett Bay Insurance Company state basis (Page 3, Line 37, Columns 1 & 2)				\$ 111,104,919	\$ 89,363,619
(6) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:				-	-
(7) State Prescribed Practices that are an increase/(decrease) from NAIC SAP:				\$ -	\$ -
(8) NAIC SAP (5-6-7=8)				<u>\$ 111,104,919</u>	<u>\$ 89,363,619</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles (“SAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business and are based on reports received from ceding companies for reinsurance assumed and contract terms for reinsurance ceded.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the Company uses the following accounting policies:

- (1) Short-term investments are stated at amortized costs.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
- (3) Unaffiliated common stocks are stated at market value.
- (4) Preferred stocks
N/A
- (5) Mortgage loans on real estate
N/A
- (6) Loan-backed securities are stated at amortized cost. The retrospective amortization adjustment method is used to value all loan-backed securities.
- (7) Investments in uncombined subsidiaries controlled and affiliated companies in which the Company had an interest of 20% or more are carried on the equity basis.

(8) Investments in joint ventures, partnerships and limited liability companies

N/A

(9) Derivatives

N/A

(10) N/A

(11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

(12) The Company has not modified its capitalization policy from the prior period.

(13) Method used to estimate pharmaceutical rebate receivables

N/A

D. Going Concern

N/A

2. Accounting Changes and Corrections of Errors

N/A

3. Business Combinations and Goodwill

The Company had no unamortized goodwill and did not participate in a business combination during the years ended December 31, 2017 and 2016.

A. Statutory Purchase Method

N/A

B. Statutory Merger

N/A

C. Impairment Loss

N/A

4. Discontinued Operations

N/A

5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

N/A

B. Troubled Debt Restructuring for Creditors

N/A

C. Reverse Mortgages

N/A

D. Loan-Backed Securities

(1) Prepayments assumptions for Mortgage-Backed Securities, Collateralized Mortgage Obligations and Other Structured Securities were generated using a purchased prepayment model. The prepayment model uses a number of factors to estimate prepayment activity including the time of year (seasonality), current levels or interest rates (refinancing incentive), economic activity (including housing turnover) and term and age of the underlying collateral (burnout, seasoning).

(2) N/A

(3) N/A

(4) The fair value and gross unrealized losses by length of time that individual security within the Company's portfolio had been in continuous unrealized loss position were as follows at December 31, 2017:

a. The aggregate amount of unrealized losses:

1.	Less than 12 Months	\$	(133,791)
2.	12 Months or Longer	\$	(401,055)

b. The aggregate related fair value of securities with unrealized losses:

1.	Less than 12 Months	\$	27,617,546
2.	12 Months or Longer	\$	14,348,386

- (5) The Company routinely assesses whether declines in fair value of its investments represent impairments that are other than temporary. There are several factors that are considered in the assessment of a security, which include: (a) the time period during which there has been a significant decline below cost; (b) the extent of the decline below cost; (c) The Company's intent and ability to hold the security; (d) the potential for the security to recover in value; (e) an analysis of the financial condition of the issuer; and (f) an analysis of the collateral structure and credit support of the security, if applicable.

When the Company has determined that an other than temporary decline in the fair value of the security exists, the cost of the security is written down to its fair value and the unrealized loss at the time of the determination is charged to income through the recognition of a realized capital loss. There were no other than temporary charges recorded during the years ended December 31, 2017 and 2016.

- E. Dollar Repurchase Agreements and/or Securities Lending Transactions
N/A
- F. Repurchase Agreements Transactions Accounted for as Secured Borrowing
N/A
- G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing
N/A
- H. Repurchase Agreements Transactions Accounted for as a Sale
N/A
- I. Reverse Repurchase Agreements Transactions Accounted for as a Sale
N/A
- J. Real Estate
N/A
- K. Low Income Housing Tax Credits (LIHTC)
N/A

L. Restricted Assets

In accordance with revisions to SSAP No. 1, effective in 2013, the following tables disclose quantitative information about the Company's restricted assets by category of restricted asset for the year ended December 31, 2017.

(1) Restricted assets (including pledged) summarized by restricted asset category

Restricted Asset Category	Gross (Admitted & Nonadmitted) Restricted							Current Year			
	Current Year					6	7	8	9	Percentage	
	1	2	3	4	5					10	11
	Total General Account (G/A)	G/A Supporting Protected Cell Account Activity (a)	Total Protected Cell Account Restricted Assets	Protected Cell Account Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Nonadmitted Restricted	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
a. Subject to contractual obligation for which liability is not shown	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%	0.0%
b. Collateral held under security lending agreements	-	-	-	-	-	-	-	-	-	0.0%	0.0%
c. Subject to repurchase agreements	-	-	-	-	-	-	-	-	-	0.0%	0.0%
d. Subject to reverse repurchase agreements	-	-	-	-	-	-	-	-	-	0.0%	0.0%
e. Subject to dollar repurchase agreements	-	-	-	-	-	-	-	-	-	0.0%	0.0%
f. Subject to dollar reverse repurchase agreements	-	-	-	-	-	-	-	-	-	0.0%	0.0%
g. Placed under option contracts	-	-	-	-	-	-	-	-	-	0.0%	0.0%
h. Letter stock or securities restricted as to sale - excluding FHLB capital stock	-	-	-	-	-	-	-	-	-	0.0%	0.0%
i. FHLB capital stock	-	-	-	-	-	-	-	-	-	0.0%	0.0%
j. On deposit with states	601,992	-	-	-	601,992	601,568	424	-	601,992	0.3%	0.3%
k. On deposit with other regulatory bodies	-	-	-	-	-	-	-	-	-	0.0%	0.0%
l. Pledged collateral to FHLB (including assets backing funding agreements)	-	-	-	-	-	-	-	-	-	0.0%	0.0%
m. Pledged as collateral not captured in other categories	-	-	-	-	-	-	-	-	-	0.0%	0.0%
n. Other restricted assets	-	-	-	-	-	-	-	-	-	0.0%	0.0%
o. Total Restricted Assets	\$ 601,992	\$ -	\$ -	\$ -	\$ 601,992	\$ 601,568	\$ 424	\$ -	\$ 601,992	0.3%	0.3%

(a) Subset of column 1

(b) Subset of column 3

(c) Column 5 divided by Asset Page, Column 1, Line 28

(d) Column 9 divided by Asset Page, Column 3, Line 28

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories
N/A

(3) Detail of Other Restricted
N/A

(4) Collateral Received and Reflected as Assets Within the Financial Statements
N/A

M. Working Capital Finance Investments

(1) Aggregate Working Capital Finance Investments (WCFI) Book/Adjusting Carrying Value by NAIC Designation:
N/A

(2) Aggregate Maturity Distribution on the Underlying Working Capital Finance Programs:
N/A

(3) Events of Default of Working Capital Finance Investments
N/A

N. Offsetting and Netting of Assets and Liabilities
N/A

O. Structured Notes

Cusip Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (YES/NO)
053015AD5	\$ 1,270,688	\$ 1,253,213	\$ 1,262,200	NO
Total	\$ 1,270,688	\$ 1,253,213	\$ 1,262,200	

P. 5* Securities
N/A

Q. Short Sales
N/A

R. Prepayment Penalty and Acceleration Fees
N/A

6. Joint Ventures, Partnerships and Limited Liability Companies

A. Detail for Those Greater than 10% of Admitted Assets
N/A

B. Write-downs for Impairments
N/A

7. Investment Income

A. Due and Accrued Investment Income

The Company non-admits investment income due and accrued if amounts are over 90 days past due.

B. Amounts Non-Admitted

No investment income due and accrued was excluded from surplus as of December 31, 2017.

8. Derivative Instruments
N/A

9. Income Taxes

A. The components of the net deferred tax asset (DTA) or deferred tax liability (DTL) at December 31 are as follows:

	12/31/2017			12/31/2016			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Ordinary	Capital	(Col 1+2) Total	Ordinary	Capital	(Col 4+5) Total	(Col 1+4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
1									
(a) Gross Deferred Tax Assets	2,455,260	0	2,455,260	3,853,822	0	3,853,822	(1,398,562)	0	(1,398,562)
(b) Statutory Valuation Allowance Adjustments	0	0	0	0	0	0	0	0	0
(c) Adjusted Gross Deferred Tax Assets (1a-1b)	2,455,260	0	2,455,260	3,853,822	0	3,853,822	(1,398,562)	0	(1,398,562)
(d) Deferred Tax Assets Nonadmitted	0	0	0	(102,262)	0	(102,262)	102,262	0	102,262
(e) Subtotal Net Admitted Deferred Tax Asset (1c-1d)	2,455,260	0	2,455,260	3,751,560	0	3,751,560	(1,296,300)	0	(1,296,300)
(f) Deferred Tax Liabilities	(4,235,025)	0	(4,235,025)	(6,358)	0	(6,358)	(4,228,667)	0	(4,228,667)
(g) Net Admitted Deferred Tax Assets/ (Net Deferred Tax Liabilities) (1e-1f)	(1,779,765)	0	(1,779,765)	3,745,202	0	3,745,202	(5,524,967)	0	(5,524,967)
2									
Admission Calculation Components SSAP No. 101									
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	1,573,349	0	1,573,349	0	0	0	1,573,349	0	1,573,349
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation. (The Lesser of 2(b)1 and 2(b)2 Below).	833,583	0	833,583	0	0	0	833,583	0	833,583
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	833,583	0	833,583	3,745,202		3,745,202	(2,911,619)		(2,911,619)
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	17,258,411	0	17,258,411	12,842,763	0	12,842,763	4,416,648	0	4,416,648
Lesser of (b)1 or (b)2.	833,583		833,583	3,745,202		3,745,202	(2,911,619)		(2,911,619)
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities	48,328	0	48,328	6,358	0	6,358	4,1970	0	4,1970
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 Total (2(a)+2(b)+2(c))	2,455,260	0	2,455,260	3,751,560	0	3,751,560	(1,296,300)	0	(1,296,300)

3		2017	2016
(a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation in 2(b)1 above.		984%	816%
(b) Amount of Adjusted Capital And Surplus Used To Determine Recovery Period and Threshold Limitation In 2(b)2 above		\$ 111,104,919	\$ 89,363,619

	12/31/2017		12/31/2016		Change	
	(1)	(2)	(3)	(4)	(5)	(6)
	Ordinary Percentage	Capital Percentage	Ordinary Percentage	Capital Percentage	Total Ordinary Percentage	Total Capital Percentage
(a) Determination of Adjusted Gross Deferred Tax Assets, By Tax Character as a Percentage						
1. Adjusted Gross DTAs Amounts from Note 9A 1(c)	0%	0%	0%	0%	0%	0%
2. Percentage of Adjusted Gross DTAs By Tax Character Attributable to the Impact of Tax Planning Strategies	0%	0%	0%	0%		0%
3. Net Admitted Adjusted Gross DTAs Amount from Note Note 9A 1(e)	2,455,260	-	3,751,560		(1,296,300)	-
4. Percentage of Net Admitted Adjusted Gross DTAs by Tax Character Admitted because of the Impact of Tax Planning Strategies	0%	0%	0%	0%	0%	0%
(b) Does the Company's tax-planning strategies include the use of reinsurance?			Yes _____ No <u>X</u> _____			

B. Deferred tax liabilities are not recognized for the following amounts:
N/A

C. Current Tax and Change in Deferred Tax

	(1) 12/31/2017	(2) 12/31/2016	(3) Col 1-2 Change	
1	Current Income Tax			
(a)	Federal	1,414,946	1,445,193	(30,247)
(b)	Foreign	0	0	0
(c)	Subtotal	1,414,946	1,445,193	(30,247)
(d)	Federal income tax on net capital gains	0	0	0
(e)	Utilization of capital loss carry-forwards	0	0	0
(f)	Other	1,207,303	0	1,207,303
(g)	Federal and foreign income taxes incurred	2,622,249	1,445,193	1,177,056
2	Deferred Tax Assets:			
(a)	Ordinary			
(1)	Discounting of unpaid losses	161,092	362,066	(200,974)
(2)	Unearned premium reserve	1,909,527	3,194,613	(1,285,086)
(3)	Policyholder reserves	0	0	0
(4)	Investments	0	0	0
(5)	Deferred acquisition costs	0	0	0
(6)	Policyholder dividends accrual	0	0	0
(7)	Fixed assets	0	0	0
(8)	Compensation and benefits accrual	0	0	0
(9)	Pension accrual	0	0	0
(10)	Receivables - nonadmitted	194,061	154,147	39,914
(11)	Net operating loss carry-forward	100,130	0	100,130
(12)	Tax credit carry-forward	0	0	0
(13)	Other (including items <5% of total ordinary tax assets)	90,451	142,996	(52,545)
(99)	Subtotal	2,455,261	3,853,822	(1,398,561)
(b)	Statutory valuation allowance adjustment	0	0	0
(c)	Non admitted	0	(102,262)	102,262
(d)	Admitted ordinary deferred tax assets (2a99-2b-2c)	2,455,261	3,751,560	(1,296,299)
(e)	Capital:			
(1)	Investments	0	0	0
(2)	Net capital loss carry-forward	0	0	0
(3)	Real estate	0	0	0
(4)	Other (including items <5% of total capital tax assets)	0	0	0
(99)	Subtotal	0	0	0
(f)	Statutory valuation allowance adjustment	0	0	0
(g)	Non admitted	0	0	0
(h)	Admitted capital deferred tax assets (2e99-2f-2g)	0	0	0
(i)	Admitted deferred tax assets (2d+2h)	2,455,261	3,751,560	(1,296,299)
3	Deferred Tax Liabilities:			
(a)	Ordinary			
(1)	Investments	6,063	6,358	(295)
(2)	Salvage & Subrogation	117,605	0	117,605
(3)	Deferred and uncollected premium	0	0	0
(4)	Policyholder reserves	0	0	0
(5)	Other (including items <5% of total ordinary tax liabilities)	4,111,358	0	4,111,358
(99)	Subtotal	4,235,026	6,358	4,228,668
(b)	Capital:			
(1)	Investments	0	0	0
(2)	Real estate	0	0	0
(3)	Other (including items <5% of total capital tax liabilities)	0	0	0
(99)	Subtotal	0	0	0
(c)	Deferred tax liabilities (3a99+3b99)	4,235,026	6,358	4,228,668
4	Net deferred tax assets/liabilities (2i-3c)	(1,779,765)	3,745,202	(5,524,967)

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate

Among the more significant book to tax adjustments were the following:

	12/31/2017 Amount	Effective Tax Rate
Provision computed at statutory rate	\$ 9,990,070	35.0%
Permanent Differences	\$ 5,551	0.0%
Tax-exempt interest, net of pro-ration	\$ (1,963)	0.0%
Dividend-received-deduction, net of pro-ration	\$ (3,112)	0.0%
Change in N/A Assets	\$ (169,288)	-0.6%
Impact of tax rate change	\$ (1,186,510)	-4.2%
PY Federal tax adjustment	\$ (385,272)	-1.3%
Total	<u>\$ 8,249,477</u>	<u>28.9%</u>
Federal and foreign income taxes incurred	\$ 2,622,249	9.2%
Tax on capital gains(losses)	\$ -	0.0%
Change in net deferred taxes	\$ 5,627,228	19.7%
Total statutory taxes	<u>\$ 8,249,477</u>	<u>28.9%</u>

E. Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits

- (1) At December 31, 2017, there are no operating loss carry-forwards or net capital loss carry-forwards available for tax purposes. In addition, there is no alternative minimum tax credit carryover available.
- (2) The following is income tax expense for 2016 and 2017 that is available for recoupment in the event of future net losses:

Year	Amount
2017	\$ 2,622,249
2016	\$ -

- (3) The Company had no admitted deposits under Section 6603 of the Internal Revenue Service Code during the years ended December 31, 2017 and 2016 Consolidated Federal Income Tax Return.

The Company believes it is reasonably possible that the liability related to any federal or foreign tax loss contingencies may significantly increase within the next 12 months. However, an estimate of the reasonably possible increase cannot be made at this time.

F. Consolidated Federal Income Tax Return

- (1) The Company's 2017 federal income tax return will be consolidated with the following entities:

Heritage Insurance Holdings, Inc.
Heritage Property & Casualty Insurance Company
Heritage MGA, LLC
Contractors' Alliance Network, LLC
First Access Insurance Group, LLC
Osprey Re Ltd.
Skye Lane Properties, LLC
Zephyr Insurance Company
Zephyr Acquisition Company
HI Holdings, Inc.
NBIC Holdings, Inc.
Pawtucket Insurance Company
NBIC Service Company, Inc.
NBIC Financial Holdings, Inc.

- (2) Allocation is based upon separate return calculations.

G. Federal or foreign income tax loss contingencies
N/A

10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

- A.- C. The Company had been capitalized through a \$200 million funding agreement between Blackstone Financial Group, Inc. ("BFG") (ultimate parent company of the group) and an outside investment group. During 2008, Blackstone Financial Group, Inc. changed its name to NBIC Financial Holdings, Inc. and later to NBIC Holdings, Inc. ("NBICHI").

The Company received additional capital contributions from NBIC Financial Holdings, Inc. in the form of cash in the amount of \$11.0 million, \$12.0 million, \$10.0 million and \$9.0 million during 2012, 2011, 2010 and 2009, respectively.

On April 2, 2013, the Company received an additional \$2.5 million capital contribution from NBIC Financial Holdings, Inc. in the form of cash. The amount was recorded in the December 31, 2012 statutory balance sheet as gross paid in and contributed surplus. Correspondingly, \$2.5 million was recorded in the December 31, 2012 balance sheet as receivable from parent, subsidiaries and affiliates.

On November 12, 2015, the Company contributed additional capital of \$1.5 million to Pawtucket Insurance Company ("PIC"). The contribution was originally funded by NBIC Service Company and passed through NBIC to PIC.

Effective November 30, 2017, Heritage Insurance Holdings, Inc. acquired 100% of the issued and outstanding shares of NBICHI.

- D. As of December 31, 2017, the Company owed its affiliate, NBIC Service Company, Inc. \$2,530,191 for amounts related to an expense sharing agreement between the Company, Pawtucket Insurance Company (“PIC”), NBIC Service Company, Inc. and NBICHI.
- E. Guarantees or Contingencies for Related Parties
N/A
- F. Management, Service Contracts, Cost Sharing Arrangements
- The Company has an Administrative Services arrangement with NBIC Service Company Inc., NBICHI and PIC. The Company reimburses these affiliated entities for costs directly related to the business of the Company. The allocation policies were designed to be fair and equitable to all parties.
- G. See Note 10 A., B., & C. and 10 I.
- H. Value of an Upstream Intermediate Entity
N/A
- I. Investment in an SCA that exceeds 10% of admitted assets
- In accordance with NAIC SAP, NBIC has reported the investment in its 100% owned insurance subsidiary, PIC, at the statutory surplus value of that subsidiary. However, effective September 30, 2006, PIC, with the explicit permission of the Rhode Island Insurance Department, records its buildings and land at fair market value instead of at depreciated cost required by NAIC SAP. This permitted practice, however, does not extend to the value of PIC as recorded by NBIC. NBIC, therefore, continues to record its investment in PIC as an amount equal to PIC’s statutory surplus on an NAIC SAP basis. During 2017, PIC sold its buildings and land to NBIC Service Company, Inc.
- J. Write down for Impairment of Investments in SCA Entities
N/A
- K. Investment in Foreign Insurance Subsidiary
N/A
- L. Investment in Downstream Non Insurance Holding Company
N/A
- M. SCA Investments
N/A
- N. Investment in an Insurance SCA
N/A
11. Debt
N/A
12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Post Retirement Benefit Plans
N/A
13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations
- (1) The Company had 1,000,000 shares of \$1 par value common stock authorized, issued and outstanding at December 31, 2017 and 2016.
- (2) The Company has no preferred stock outstanding at December 31, 2017 and 2016.
- (3) The Company may pay dividends without prior approval of the Rhode Island (state of domicile) Department of Business Regulation (“DBR”) except as required under Rhode Island law. Prior notification to the DBR prior to paying dividends, however, is required.
- (4) The Company made no dividend payments during the years ended December 31, 2017 and 2016.
- (5) Within the limits described above (see Note 13 (3)), there are no restrictions placed on the portion of profits that may be paid as ordinary dividends.
- (6) Restrictions on Unassigned Funds (Surplus)
N/A
- (7) Mutual Surplus Advances
N/A
- (8) Stock Held for Special Purposes
N/A
- (9) Changes in Special Surplus Funds
N/A

(10) Changes in Unassigned Funds

The Company's unassigned funds/surplus has been reduced by \$0 cumulative unrealized losses related to investments in both unaffiliated common stocks and bonds. Unassigned funds/surplus has increased by cumulative unrealized gains of \$5,675,384 related to the Company's investment in its affiliate, PIC.

(11) Surplus Notes

N/A

(12) Quasi Reorganizations

N/A

(13) Effective Date of Quasi Reorganizations

N/A

14. Liabilities, Contingencies and Assessments

A. Contingent Commitments

None

B. Assessments

The Company is subject to guaranty fund assessments by states in which it writes business. Most assessments are recorded either at the time the assessments are levied or in the case of premium-based assessments, at the time premiums are written.

The Company has accrued a liability for guaranty fund of \$430,718 at December 31, 2017. The amount recorded represents management's best estimate based on guaranty fund rate information received from states in which the Company writes business and the direct written premiums written in those states.

The Company has accrued a liability for other taxes, licenses, fees and assessments of \$103,282 at December 31, 2017. The amount recorded represents management's best estimate based on assessment rate information received from states in which the Company writes business and the direct written premiums written in those states.

C. Gain Contingencies

N/A

D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits

N/A

E. Product Warranties

N/A

F. Joint and Several Liabilities

N/A

G. All Other Contingencies

The Company is subject to litigation in the ordinary course of business. Management does not believe that the eventual outcome of any such pending litigation is likely to have a material effect on the Company's financial condition or business.

15. Leases

A. Lessee Operating Lease

The Company incurs no significant lease expense.

B. Lessor Leases

The Company has no leasing agreements as a lessor.

16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risks

N/A

17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

A. Transfers of Receivables Reported as Sales

N/A

B. Transfers and Servicing of Financial Assets

N/A

C. Wash Sales

The Company had no wash sales during the years ended December 31, 2017 and 2016.

18. Gain or Loss to the Reporting Entity from Uninsured A & H Plans and the Uninsured portion of Partially Insured plans.

A. ASO Plans

N/A

B. ASC Plans
N/A

C. Medicare or Similarly Structured Cost Based Reimbursement Contract
N/A

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators
N/A

20. Fair Value Measurements

A. Asset and Liabilities Measured and Reported at Fair Value

Type of Financial Instrument	(Level 1)	(Level 2)	(Level 3)	Total	Net Asset Value (NAV) Included in Level 2
Financial instruments – assets:					
Other money market mutual fund	\$ 102,062	\$ -	\$ -	\$ 102,062	\$ -
Total assets at fair value	\$ 102,062	\$ -	\$ -	\$ 102,062	\$ -

B. Other Fair Value Disclosures
N/A

C. Fair Values for All Financial Instruments

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practical (Carrying Value)
Financial instruments – assets:						
Bonds	\$ 97,147,626	\$ 97,252,979	\$ -	\$ 97,147,626	\$ -	\$ -
Common stock - Affiliated	2,667,389	2,667,389	-	-	2,667,389	-
Cash, cash equivalents and short-term investments	46,879,684	46,879,684	46,879,684	-	-	-
Total assets	\$ 146,694,699	\$ 146,800,052	\$ 46,879,684	\$ 97,147,626	\$ 2,667,389	\$ -

D. N/A

21. Other Items

A. Unusual or Infrequent Events
N/A

B. Troubled Debt Restructuring: Debtors
N/A

C. Other Disclosures

The Company is required to maintain security deposits with various state insurance departments. The security deposits had a carrying value of \$601,992 and \$601,568 at December 31, 2017 and 2016, respectively.

D. Business Interruption Insurance Recoveries
N/A

E. State Transferable and Non Transferable Tax Credits
N/A

F. Subprime-Mortgage-Related Risk Exposure

The Company had no subprime mortgage risk exposure during the years ended December 31, 2017 and 2016.

G. Insurance-Linked Securities (ILS) Contracts
N/A

22. Events Subsequent
N/A

23. Reinsurance

A. Unsecured Reinsurance Recoverables

Net reinsurance recoverables exceeding 3% of surplus include:

FEIN	NAIC#	Reinsurer	Net Recoverable
22-2005057	26921	Everest Reinsurance Co	\$ 34,608,000
95-2371728	22667	Ace America Insurance Co	26,348,000
AA-3194139	00000	Catlin Insurance Co. Ltd	18,634,000
47-0574325	32603	Axis Specialty Ltd	13,250,000
13-1675535	25364	SCOR Re Co	13,213,000
23-1641984	10219	QBE Reinsurance Corporation	12,565,000
13-4924125	10227	Munich Reins Amer Inc	11,014,000
06-0237820	20699	ACE Prop & Cas Ins. Co	8,418,000
AA-3194161	00000	Berkley Insurance Co.	7,476,000
AA-3770280	00000	Greenlight Reinsurance Ltd	6,961,000
13-2918573	42439	The Toa Reinsurance Company Of America	6,585,000
30-0703280	15529	Tokio Millennium Re	5,308,000
47-0698507	23680	Odyssey Reinsurance Company	4,966,000
AA-5420050	00000	Korean Reinsurance Company	3,638,000
13-2918573	42439	Partner Reinsurance	2,965,000
AA-3194122	00000	DaVinci Reinsurance Limited	2,730,000
13-3031176	38636	Swiss Reinsurance America Corp	2,725,000
			<u>\$ 181,404,000</u>

B. Reinsurance Recoverable in Dispute

N/A

C. Reinsurance Assumed and Ceded:

(1)

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
a. Affiliates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
b. All other	-	-	131,451,087	64,060,508	131,451,087	64,060,508
c. Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,451,087</u>	<u>\$ 64,060,508</u>	<u>\$ 131,451,087</u>	<u>\$ 64,060,508</u>
d. Direct Unearned Premium Reserve			<u>\$ 172,499,429</u>			

(2) Commissions predicated on profit sharing arrangements:

	Direct	Assumed	Ceded	Net
a. Contingent commission	\$ -	\$ -	\$ 14,470	\$ 14,470
b. Sliding scale adjustments	-	-	-	-
c. Other profit commission arrangements	-	-	-	-
d. Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,470</u>	<u>\$ 14,470</u>

(3) N/A

D. Uncollectible Reinsurance

The Company had no significant write-offs of uncollectible reinsurance balances during the years ended December 31, 2017 and 2016.

E. Commutation of Ceded Reinsurance

There was no reinsurance treaties commuted in 2017. During 2016, the Company commuted ceded reinsurance treaties with the reinsurers listed below. The effect of the commutations is shown by Income Statement classification and by reinsurer.

a. Losses incurred	\$ 5,306,691
b. Loss adjustment expenses incurred	1,213,313
c. Premiums earned	-
d. Other income/(expense)	(4,272,377)
Total	<u>\$ 2,247,627</u>
e. Company:	
Swiss Reinsurance Corp	\$ 1,130,134
Axis Specialty Ltd	477,259
Third Point Reinsurance Co	296,230
Tokio Millennium Re AG	277,377
Scor Global P&C	66,627
Total	<u>\$ 2,247,627</u>

F. Retroactive Reinsurance

N/A

G. Reinsurance Accounted for as a Deposit

N/A

- H. Disclosures for the Transfer of Property and Casualty Run-Off Agreements
N/A
- I. Certified Reinsurer Rating Downgraded or Status Subject to Revocation
N/A
- J. Reinsurance Agreements Qualifying for Reinsurer Aggregation
N/A
- 24. Retrospectively Rated Contracts & Contracts Subject to Redetermination
N/A
- 25. Changes in Incurred Losses and Loss Adjustment Expenses

The Company's net incurred loss and loss adjustment expenses for the years ended December 31, 2017 and 2016 includes favorable loss development on prior accident years of \$2,443,914 and \$1,959,478, respectively. Original ultimate loss and loss adjustment expense estimates are increased or decreased over time as additional information becomes known regarding individual claims.
- 26. Intercompany Pooling Arrangements
N/A
- 27. Structured Settlements
N/A
- 28. Health Care Receivables
N/A
- 29. Participating Policies
N/A
- 30. Premium Deficiency Reserves
N/A
- 31. High Deductibles
N/A
- 32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses
N/A
- 33. Asbestos/Environmental Reserves
N/A
- 34. Subscriber Savings Accounts
N/A
- 35. Multiple Peril Crop Insurance
N/A
- 36. Financial Guaranty Insurance
N/A